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T H E C O T T O N S I T U A T I O N

Summary

Cotton mills of the world were, on the whole, apparently somewhat less active in May than in April and probably 25 to 30 percent less active than in the exceptionally favorable month of May last year, according to reports received by the Bureau of Agricultural Economics. Meager reports pertaining to the first half of June indicate slight increases in some regions and further declines in others, with the rate of consumption possibly declining by about the usual seasonal amount.

Cotton textile production in this country during May when adjusted for seasonal variations was slightly higher than in April, but was 38 percent below May last year. Despite the low level of output, manufacturers' sales of cotton goods were again below production during a substantial part of May. In the first half of June mill sales improved considerably, and preliminary information indicates that mill activity when adjusted for seasonal changes, showed some increase over the last part of May.

Reports from European cotton textile centers stated that for the most part manufacturers' sales of cotton textiles in May remained below the materially restricted production. Consumption was considerably (probably 10 to 15 percent) below that of May last year but it was not nearly so much below a year earlier as was consumption by United States mills (36 percent).

Cotton mill activity in China continues exceptionally low. In Japan mill consumption in May was 22 percent less than May 1937, but in India mill

activity continued at or near the record levels of recent months.

The continued unfavorable developments in the world cotton textile situation contributed to the decline of about 1 cent per pound in domestic cotton prices during the last half of May. In the first 3 weeks of June, however, an advance of 1 cent occurred, with Middling 7/8 inch cotton in the 10 markets on June 24 averaging 8.79 cents per pound. While this was 2/3 cent below the high reached so far in 1938 and $2\frac{1}{2}$ cents below the high for the season, it is approximately 1 cent above the season's low.

From the standpoint of supply, interest is now primarily centered on prospects for the 1938-39 world crop. In foreign countries cotton acreage in 1938 is expected to be considerably less than in 1937. This is especially so in the case of China where the acreage is now estimated at only about one-half that of 1937 and the crop is very tentatively estimated at only a little over 60 percent of the 1937-38 harvestings. The first official estimate of the acreage in cultivation in the United States will be issued by the Bureau on July 8.

PRICES

Domestic cotton prices declined about 1 cent per pound during the last half of May, but by June 24 had recovered all of this loss. On May 13 the average price of middling 7/8" cotton in the 10 designated spot markets was 8.79 cents, slightly higher than early in the month and about the same as at the end of April. Prices trended downward during the second half of the month and on May 31 averaged 7.76 cents, the lowest since early November and only 0.11 cent above the low point at that time. Since the end of May a fairly steady rise has occurred in domestic cotton prices and on June 24 the 10-market average was 8.79 cents.

During the latter part of May Liverpool prices of the principal types of Indian cotton declined more, and in the first $2\frac{1}{2}$ weeks of June advanced less, than the price of American 7/8" cotton. As a result the price of

American cotton at Liverpool on June 17 was higher relative to these growths than for many months. When expressed as a percentage of American Middling and Low Middling, three principal types of Indian cotton (Broach, Oomra and Sind) on June 17 averaged 79.5 percent compared with 81.5 percent during May, and was the lowest such ratio for more than a year. On the same date the price of Egyptian Uppers averaged 121.3 percent of the price of American Middling compared with 119.8 in May, 130.6 in June last year.

EXPORTS

Exports of American cotton in May totaled 193,000 running bales compared with 324,000 bales in May 1937, a decline of 40 percent. February and March were the only other months of the current season in which exports were lower than a year earlier; in those months exports were smaller by 18 percent and 9 percent, respectively.

For the 10 months ending May 31, a total of 5,227,000 bales of American cotton was exported. This total represented a gain of only 140,000 bales or 3 percent over exports during the corresponding period last season. As trade statistics indicate that exports during the first 20 days of June were materially below a year earlier total exports for the year ended July 31 may fall below the 5,440,000 bales exported during the 1936-37 season.

DEMAND AND CONSUMPTION

UNITED STATES: Manufacturers' sales of cotton textiles increase

During the 2 weeks ended June 18, sales of cotton cloth by domestic mills picked up considerably and apparently exceeded the restricted output by a substantial margin. In the last half of May, however, reports show that sales were less than production. Preliminary indications are that the improvement in sales during the first part of June was accompanied by a moderate increase in cotton mill activity.

In May, the Federal Reserve Board's index of cotton consumption adjusted for seasonal variation was 81 percent of the 1923-25 average. This was slightly higher than April, but 38 percent less than May last year.

For the 10 months ended May total cotton consumption by domestic mills amounted to 4,864,000 running bales, according to data released by the Bureau of the Census. This was 27 percent less than in the corresponding period last season, but slightly larger than the average for those months during the 5 years ended with 1936. The average daily rate of consumption during May amounted to 19,600 bales. Should this rate be maintained during June and July total consumption this season would amount to a little less than 5,700,000 bales. There is, however, usually a substantial decline in the daily rate of consumption in June and July. Should the daily rate in these 2 months decline as much in relation to May as on the average during the last 10 years, consumption for the 12 months ending July 31 would total only 5,500,000 bales. In the 1936-37 and 1935-36 seasons domestic mill consumption of all cotton totaled 7,950,000 and 6,351,000 bales, respectively.

EUROPE: 1/ Sales and output continue restricted

The European cotton textile industry continued to report unfavorable conditions during May and early June. Declines in consumer incomes as a result of the economic recession in the industrial countries and the reduced purchasing power of the overseas raw material areas were cited as adverse factors.

With further declines in raw cotton values and prospects for an all-time high carry-over of raw cotton into next season, the wholesale and retail textile trades continued to show a "waiting attitude." Both export and domestic business remained depressed or experienced even further restriction. In Germany, however, demand for textile goods remained large and mill activity continued at a high level despite reduced exports.

In Great Britain further stoppage of spindles and looms was reported. The percentage of unemployed among those registered as cotton textile workers rose to 25 percent in April, compared with 10.3 percent a year earlier. In France weaving mill activity seems to have been measurably reduced. French yarn and fabrics stocks are considerably above last year, and unfilled orders on hand much below. Depression in the cotton industries of Belgium, Holland and Switzerland continued, with mill activity considerably reduced. The outlook for the Italian cotton industry for the next few months is reported as unpromising, with export business very unsatisfactory and severely hit by the Egyptian tariff. In Czechoslovakia mill activity is 20 to 25 percent below a year ago.

United Kingdom

The faint signs of improvement discernible in the demand situation in Great Britain during April largely faded in May. The European political uncertainties through most of the month and the weakness in prices of commodities generally, were depressing factors. Further stoppage of machinery was reported both in the spinning and weaving industries. And, although cloth prices have been severely cut, sales were said to have been below the rate of current deliveries and barely half of normal production. Cotton takings in April and May were at the extremely low levels usually seen only in the holiday weeks of late summer. There was apparently a little more inquiry at the new low level of cotton prices prevailing at the end of the month, but some of this was presumably for the purposes of testing prices of goods. Market comment continues, however, to refer to the accumulation in trade channels of yarns and goods contracted at higher prices.

For many manufacturers the home market was said to have been the only source of orders in May, although a moderate export business with India and some of the smaller Far Eastern markets was reported. The generally depressed state of export trade was reflected, however, in shipments both of yarn and cloth which for the 9 months from August 1, 1937, were 10.9 and 14.8 percent respectively below those of a year earlier. In April exports of yarn were

1/ Based largely upon a report prepared in the office of the Agricultural Attache, London, England, dated June 8.

were 32.2 percent and goods 30.5 percent below those of April 1937. And in May, exports of piece goods were 32 percent below a year earlier, and the smallest for any month since prior to August 1900, the earliest month this Bureau has these data recorded.

Three recent developments basically unfavorable to the export trade in textiles have contributed to the unsatisfactory situation or are of importance with respect to the outlook. The increase in Egyptian import duties by amounts from 70 to more than 100 percent in April brought new business with that market virtually to a standstill. The resumption of trading with Egypt which took place in May apparently was on a very restricted scale. In Columbia, the second market of South America in point of importance to Lancashire, suspension of licenses for the import of a wide range of cotton goods and the initiation of steps to increase duties, concurrently with the denunciation of the British-Colombian Trade treaty of 1866, had for the time being brought about a cessation of business with that country. Further, on May 23, announcement was made that the trade mission to India has found it impracticable to continue negotiations with the Indian industry for more favorable tariff treatment of Lancashire textiles imported into India. The matter now reverts to the Governments for adjustment, if possible, in the pending negotiations for a new trade agreement to replace the Ottawa agreement, denounced by India but continued under a temporary extension.

The depressed state of trade has been urged upon the Government as a reason for an Enabling Bill to permit unified action in the control of prices and competition, retirement of obsolescent equipment and recovery of exports. On May 31, the British Board of Trade announced its intention to begin drafting a bill along the lines proposed by the cotton textile industry's representatives. It is expected that the draft will be submitted for discussion by the trade and if the plan is favored by a substantial majority, the bill will be introduced in Parliament early in the next session. So far, however, opposition shows but few signs of abatement.

Germany

Cotton mill activity in Germany during May and the early part of June was well maintained, despite reduced export sales of cloth. Spinning mills in the Rhineland for the most part were working at full capacity. The new raw material allotment system is gradually becoming workable, it is reported. Under this system special raw material allotments are made for export orders; a so-called raw material premium (additional allotment) of 50 percent is granted for Governmental orders and "economically specially important" fabrics; a premium of 25 percent is given for "basically necessary goods"; and, more recently, an intermediate raw material premium of $33\frac{1}{3}$ percent is being allotted for "preferred basically necessary articles." In this way the authorities attempt to assure adequate fulfillment of orders placed on behalf of Governmental agencies, and to eliminate shortages along special lines of textile requirements, such as bed linen and underwear. Standardization and simplification of textile types in the retail trade is also being advocated as a device to reduce waste of raw material and misdirection of production.

German supplies of specified textile raw materials, in terms of
spinnable fiber, 1932, 1935 to 1937

Material	1932	1935	1936	1937 ^{1/}
	Mil.lb. ^{2/}	Mil.lb. ^{2/}	Mil.lb. ^{2/}	Mil.lb. ^{2/}
Wool:				
German production of wool	12.6	14.6	15.9	17.4
German production of reclaimed :				
wool ^{3/}	64.2	66.1	76.1	99.2
Net imports	194.9	190.5	136.9	141.1
Total supply	271.6	271.2	228.8	257.7
Cotton:				
German production of reclaimed :				
cotton ^{3/}	48.5	52.9	59.5	77.2
Net imports	770.7	815.9	718.5	799.4
Total supply	819.2	868.8	778.0	876.5
Silk:				
Net imports	3.3	5.7	7.3	6.4
Synthetic fibers:				
German production of rayon ...:	59.1	98.8	100.1	121.3
German production of cell- :				
wool	3.1	37.9	94.6	209.4
Net imports	7.9	21.4	3.1	11.9
Total supply	70.1	158.1	197.8	342.6
Flax:				
German production	7.9	30.4	65.7	74.7
Net imports	49.4	77.6	45.6	63.5
Total supply	57.3	108.0	111.3	138.2
Hemp:				
German production4	4.9	6.0	9.3
Net imports	35.3	65.3	62.8	106.7
Total supply	35.7	70.1	68.8	116.0
Manila and hemp ramie:				
Net imports	83.1	139.1	99.9	159.8
Jute:				
Net imports	163.1	250.4	210.8	239.6
Total textile raw materials:				
German production	195.8	305.6	417.8	608.5
Net imports	1307.8	1565.9	1284.8	1528.4
Total supply	1503.5	1871.5	1702.6	2136.9
German production in percent of:				
total supply	13	16	25	29

These data are as per "Warum Aussenhandel", by Dr. Rudolf Eicke, 4th edition, Berlin, 1938. Cited from Frankfurter Zeitung, May 23, 1938.

^{1/} Figures partly preliminary.

^{2/} Figures were converted from metric tons and totals in pounds are not adjusted.

^{3/} Estimated.

The latest compilation of German textile raw material supplies and the share of domestic production is shown in the following table. The increase in the share of domestic production in total supplies from 13 percent in 1932 to 29 percent in 1937 is an extraordinary accomplishment. Cell-wool production for 1938 is estimated from 150,000 to 200,000 tons, or roughly equivalent to from 700,000 to 900,000 bales of 478 pounds.

In Austria it appears that the cotton industry is in a state of fundamental transition under increased and revised governmental regulations. Although the German system of import control and manufacturing quotas has not as yet been extended to Austria, imports are under a strict allotment scheme administered by the currency authority in Vienna. Austrian spinners can no longer buy raw cotton when, where and in such quantities as they please. A marked decline seems likely to result in the consumption of American cotton in Austria because of increased use of competitive growths, reclaimed fibers, and synthetic fibers. It is said that the near future may see the establishment of Austria's production of cell-wool for which she has ample raw material supplies.

Since raw material is the main problem for the cotton industry in greater Germany, Austrian mills may carry the manufacturing process to a higher stage than has been true in the past. Exports of cotton yarn by Austrian spinners - who exported almost half their yarn production in the past 2 years - may be cut down in favor of supplying more yarns to Austrian and German weaving mills. As a result, importation of cotton fabrics might decline.

Czechoslovakia

Conditions in the Czechoslovakian cotton textile industry continued unsatisfactory during May and early June. The recession in general economic conditions has impaired domestic consumer demand as well as export trade. As a result of the recent German annexation of Austria it was feared that the Austrian market might be lost to the Czechoslovakian industry. In late May, however, the industry is said to have been more hopeful of continued business with former Austria.

If Austrian and German weaving mills draw heavily on the Austrian yarns that were hitherto exported, Czech weaving mills will probably lose part of the Austrian goods market but Czech spinners may find some additional demand for yarns in countries that were formerly supplied by Austrian spinners.

The official index of spinning mill activity for February - the last month for which records are available - was 79.2 percent of the 1929 average activity, compared with 74.6 in January. But since then it is likely to have dropped again. The February figure, however, was more than 20 percent below February 1937, and 7 percent below February 1936.

France

The devaluation of the franc in May does not seem to have had much effect upon French cotton textile business. The position with spinners and weavers was described as unsatisfactory during May, but in early June some observers were said to be a little more hopeful.

Although spinning mill occupation had held up well through March, spinning as well as weaving activity of the French cotton mills in April and May seems to have been measurably reduced. Yarn production per spindle in March - the latest data available - was 2.002 Kgs., compared with 1.811 in February, and 1.851 in March 1937. As a result of lower weaving activity, yarn stocks had risen to almost twice what they were in March 1937. Stocks of fabrics also were above a year earlier, despite the smaller output, and unfilled orders in weaving mills were 40 percent below March last year.

Belgium

The depression in the Belgian cotton industry apparently continued through May, despite reports of a marked increase in manufacturers' sales around the middle of the month resulting at least in part to fears of devaluation of the Belgian franc. Spinning mills are reported to have continued the practice begun in April of closing down 2 days each week. The organized stoppage during the first quarter of 1938 was 1 day a week. It is estimated that, in 1937, over half of the Belgian production of cotton goods was exported. This accounts in part for the fact that the Belgian industry is very sensitive to developments pertaining to the gold or foreign exchange value of the Belgian franc.

According to the annual report of the Belgian Cotton Spinners' Association yarn production of their member mills in 1937 was 37.75 Kgs. per spindle, compared with 32.96 in 1936.

Switzerland

Expectations of a decline in cotton mill activity in Switzerland as a result of the slump in new business have materialized. Spinning and weaving mill activity is reported to have fallen to between 60 and 85 percent of capacity. Despite the low level of activity, reports indicate that in May, sales of cotton textiles were less than output.

Italy 2/

In late May the outlook for the Italian cotton industry for the next few months was still considered unpromising. Although unfilled orders appeared sufficient to keep mills running for some time at a decreased tempo, new orders were reported difficult to obtain. The domestic market appeared to be well stocked, particularly for this season of the year. Farmers, whose buying power bulks heavily in the consumption of cotton textiles in Italy, will probably have less money to spend next season. Serious drought and unseasonable freezing have caused heavy damage in the cereal, fruit and vegetable areas of the north, and it is not expected that higher farm prices will offset the loss in buying power resulting from the reduction in marketable supplies. The decline in textile export sales continued and no revival was expected for some months to come. The new Egyptian tariffs have affected Italy very gravely.

2/ From information received from the American Consulate General at Milan.

A further reduction in the activity of Italian spinning mills occurred during February, the last month reported. The decline was not excessive, however, and the rate of spinning activity remained substantially above the year previous. Cotton loom activity on the other hand, was still favorable and on the increase (See tabulation.) Reports to the New York Cotton Exchange Service indicate that in May and early June, spindle activity was probably somewhat lower than the comparatively high rate of activity existing in February which was much higher than a year earlier, and higher than during most of the past 4 years.

Italian cotton mill activity, 1934-38

Period	: Spinning mills, :Weaving mills, :spindle hrs.worked:loom hrs.worked	
	: Percent of 1934	Percent of 1934
Average:	:	:
1934	100	100
1935	96.3	100.7
1936	84.6	92.0
1937	118.4	116.8
1937 (Feb.)..	108.4	110.2
1938 (Jan.)..	125.3	125.3
1938 (Feb.)..	122.7	126.2
:	:	:

Italian imports of raw cotton through March continued to increase and raised imports for the first quarter of 1938 about 10 percent above 1937. Almost 70 percent of these imports came from the United States, compared with only about 60 percent in the first quarter of 1937. More competitive prices of American cotton this year are held as the reason for the higher share of takings of American.

Latest data on Italian exports of cotton products show a substantial decline, compared with a year ago.

ORIENT: Mill activity low in China and Japan, high in India

China including Manchuria 3/

During May cotton mill activity in China on the whole remained about the same as in April but less than half the average for the 1936-37 season. Total mill consumption of raw cotton was estimated at approximately 120,000 bales, which is much higher than in the first 8 months of the season although only 47 percent of the unusually high average for the 12 months ended July 1937.

The demand for the limited yarn output by Chinese mills continued good during May and some advance in price resulted. The recent greatly reduced

3/ Based largely on radiograms from the Bureau's Shanghai Office dated June 14 and 15.

import duties on piece goods are not expected to increase materially the imports into Shanghai from Japan in the near future. In North China, however, some increase in imports is expected. Despite any gain in imports which may occur, it is expected that in the next few months cotton consumption by mills in China probably will equal or exceed the comparatively low level of May.

Arrivals of Chinese cotton at Shanghai from nearby areas continued in considerable volume during May, with stocks at Shanghai quite heavy in relation to consumption. Arrivals, as well as bookings, of non-Chinese growths continued small.

Japan 4/

Total takings of cotton by Japanese mills in May, 256,000 bales of 500 pounds, were about the same as in April and, in view of the strict regulation of the raw cotton supply, were probably very nearly the same as consumption. If mill takings in May this year were equal to cotton consumption then consumption was 22 percent lower than in May last year and the lowest for the month since 1933. For the 10 months, August through May, the estimated consumption of all cotton amounted to 2,780,000 bales. This was 11 percent less than the record high of the corresponding period last year. Total mill takings of cotton during the first 10 months of the current season were 45 percent less than a year earlier, with mill takings of American and foreign cotton 44 and 45 percent lower, respectively.

Exports of cotton cloth from Japan in April amounted to only 138 million yards which was 33 percent less than in April, 38 percent less than in May last year and the smallest for more than 6 years. During the first 8 months of the season, however, total exports were near the high level of the past 3 years, despite the fact that during much of this period reports indicate sales were much lower than in other recent years. It appears, therefore, that prior to May a considerable proportion of the cloth exported was based on orders which had accumulated earlier. It seems quite likely that Japanese manufacturers now have comparatively few unfilled orders and that until a substantial improvement in sales takes place, cloth exports will continue very materially below those of the past few years.

A recent report indicates that effective July 1 the Japanese Government will abolish all of its price and quota controls pertaining to the cotton textile industry except the quotas on raw cotton imports and the decree requiring the mixture of rayon staple fiber with cotton in the production of "cotton yarns" used in Japan. While this will give Japanese manufacturers considerably greater freedom in their operations there is some question whether or not it will materially stimulate the consumption of raw cotton by Japanese mills.

4/ Based largely on radiograms from the Bureau's Shanghai Office dated June 21 and 22 transmitting information furnished by the American Consulate at Osaka.

India

Although there was apparently some decline in Indian mill consumption of cotton in May compared with April, consumption was still quite high relative to most earlier years. With only 2 months of the season remaining unreported, it seems likely that Indian mill consumption for the current season will exceed any previous record.

SUPPLY

United States Crop Prospects

The first official estimate of the 1938 United States cotton acreage will be released July 8. Prior to that time cotton prices are being and will be influenced by trade estimates of acreage. Reports indicate that on the whole weather conditions during the 3 weeks ended June 21 were not particularly favorable to the crop. In many areas rainfall was said to have been excessive and cultivation retarded. The Bureau of Entomology and Plant Quarantine released a report on June 14 indicating that cotton boll weevils were present in moderately large numbers in most of the cotton fields of the country. In conjunction with this situation it is significant to note that weather conditions from late June to the end of July particularly influence the amount of damage by the boll weevil.

In May the combined sales of fertilizer tags in 8 of the principal cotton producing States were 28 percent larger than in May last year and the largest for the month on record. For the 6 months ended May, however, total sales in these States were 13 percent less than in the corresponding period a year earlier, but with that exception the largest for the period in 8 years.

Foreign Crop Prospects

Comparatively little information pertaining to the 1938-39 crop in foreign countries has been received except for the Chinese crop.

In this important cotton producing country it has been estimated that the 1938 crop probably would be only a little more than 60 percent as large as the crop harvested in 1937. Such a crop would, according to Agricultural Commissioner, O. L. Dawson at Shanghai, more than offset the increase in the carry-over on August 1, 1938, over that of a year earlier, thereby giving a smaller supply of Chinese cotton for the 1938-39 season than for the current season.

According to Mr. Dawson it is expected that the 1938 cotton acreage in 5 North China Provinces will be only about 50 percent as large as in 1937. Important decreases are also expected to occur in most other cotton producing areas of China. This is attributable to the fact that food crops are favored when prices of cotton are low relative to those for food crops, to the fact that the 1937 crop was difficult to market, and to the fact that heavy rains and flood conditions are believed to have adversely affected plantings in North China.

